

The Free Trade Area of the Americas after Buenos Aires: 'Much ado about nothing?'

2001-05-10

Diana Tussie

[The following article was prepared for the recent Summit of the Americas in Quebec.]

If civil society scored a small victory at the early April trade ministers' meeting in Buenos Aires, proponents of free trade did not. Little progress was made on the key trade concerns which would give Latin American countries free market access. And what progress has been achieved has made it clear that free trade may produce as many losers as winners. Among the losers could be the already disadvantaged groups in society and the environment.

First the good news. Hemispheric trade ministers meeting in Buenos Aires forged a compromise on issues affecting the substance and process of the Free Trade Area of the Americas (FTAA). In terms of substance, little was agreed except for a timetable for negotiations over tariff barriers: negotiations will end before January 2005, and the deadline for the agreement's entry into force will be December 2005. This represents a setback for those countries pressuring for a 2003 completion date. In terms of process, it was unanimously agreed to publicize the draft of the text, including all pending brackets, in the four official languages, after the Quebec Summit.

Basket of issues

A basket of issues over which agreement was not forthcoming was set aside, with instructions for the Trade Negotiations Committee to continue the work. Among these were such major issues as anti-dumping legislation, agricultural subsidies, and non-tariff barriers — the core of any trade agreement.

Minimal as it may be, this agreement is quite an achievement. Until recently, the FTAA seemed to be either empty rhetoric or a waste of time. While the crucial phase of exchanging concessions is yet to come, negotiations gained momentum in the last three years. Both the public and private sectors invested heavily in the process, which in turn became a self-propelled engine. This turnaround reflects not only that motor's impulsion, but also changes in the attitudes of Latin American governments, from either initial zeal or foot-dragging to realistic acceptance and active negotiating.

Expectations and concerns

The countries of Latin America are at widely different levels of development, and have different economic structures as well as economic power. Perhaps much more relevant for the FTAA process, they have different trade concerns. However, Latin America as a whole expects to achieve steady economic growth through trade and investment. In this respect, many countries are pinning their hopes on the FTAA to offset their disappointment with the WTO to which small-country concerns have always been relegated.

The FTAA process must also be seen as a part of the race to attract investment. Behind each trade policy move, whether it lowers or increases barriers, lies an investment decision. An increase in tariffs or non tariff barriers induces tariff jumping investment. A reduction enables the enlargement of markets, which also triggers export-oriented investment. Here lies the delicate balance of trade policy today.

Winners and losers

Nowhere in the world is income distribution more unequal than in Latin America. The consequences on political stability, human security, and environmental degradation are foreseeable. The FTAA's goals include promoting prosperity through free trade and economic integration, as well as eradicating poverty. To the extent that these goals are met, the FTAA will have a positive impact on Latin Americans.

In the short run, however, trade liberalization will create winners and losers. Adjusting to it will result in a rift between groups who have the skills and mobility to flourish in global markets and those who don't. Without a gradual phase-in, the result may be severe tension between generations, big business and small firms, and workers who lag behind. But a gradual phase-in is not sufficient to dissipate fears. One cannot wish away the resistance of broad sectors across the hemisphere that will suffer if support for adjustment is not adequate.

Environmental concerns

Widespread poverty and growth (whether it is trade-led or not) both have an impact on the environment. Consider, for instance, that Latin America has 23 % of the world's potentially arable land, 12% of the world's cultivated land, and almost half of the world's of tropical forests. More than 200 million hectares of land — almost one third of its total agricultural land — are moderately or severely degraded.

Less than a decade ago, skepticism about the "greening" potential of trade was widespread. However, early studies at the World Bank and the General Agreement on Tariffs and Trade (GATT) have found that improvement and upgrading followed trade liberalization. Enhanced market access has been particularly effective in inducing countries to upgrade environmental standards.

Export growth

Fast export growth, however, can exacerbate already poor conservation of natural resources. Without environmental protection, export growth based on nonrenewable natural resources may make a country very well off today, but at the price of future development. Nonetheless, Latin American and Caribbean countries reject linking trade with environmental and labour issues, fearing disguised protectionism. This stance prevailed at the April Buenos Aires meetings.

Since the Santiago Presidential Summit in 1998, the FTAA agenda has advanced steadily, thanks largely to the work of negotiating groups that have met regularly during the past three years and have fleshed out the technical work. The bulk of the process lies in this dense network of middle-ranking negotiators, although trade ministerial meetings and presidential summits monopolize the attention.

Increasing transparency

This represents a serious democratic deficit, which the Buenos Aires meeting took a step toward amending. Spurred by critics from civil society organizations, the ministers adopted a series of measures to increase transparency. In addition to the publication of the draft, civil society has been promised new avenues of participation, notably that proposals submitted will be referred to the relevant negotiating group. Beyond these procedural initiatives, civil society sees the most serious challenge for the FTAA in the coming years as ensuring that economic integration does not contribute to domestic social disintegration and environmental degradation.

The paucity of agreements in Buenos Aires augurs a tricky stage for the Presidential Summit of the Americas in Quebec. The main challenge lies in subsidies, non-tariff barriers, and anti-dumping procedures over which little if any progress has been achieved. An agreement without effective market access will not be easy to sell in Latin America.

Dr Diana Tussie is a member of the Latin American Trade Network (LATN) funded by Canada's International Development Research Centre (IDRC). LATN is a network of scholars and policy makers who reflect on current trade issues from a Latin American perspective. She is also a senior research fellow in the International Relations Department at FLACSO Argentina (Latin American Faculty of Social Sciences) and at CONICET (National Council for Technical and Scientific Research), and teaches at the graduate level at FLACSO Argentina, at ISEN (National Foreign Service Institute), and at ISEG (Higher Institute for Government Economists).